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Tax Foundation Vol. 35, No. 10 November 1991

Tax Features

Tax Cut Fever Strikes Washington

With the persistent sluggishness of the economy, more and more legislators are becoming interested in tax cuts as a means for economic stimulus. For a time, last month, it looked as if a tax reduction were a sure thing; if not this year, then early next year. Then, all of a sudden, tax cut fever abated as quickly as it had struck, due primarily to the fears on Wall Street and in the bond markets that a tax cut simply would fuel an already out-of-control federal budget deficit. However, now that both tax-writing committee chairmen have introduced their tax bills, interest in tax cut legislation is again heating up.

Now that both tax-writing committee chairmen have introduced their tax bills, interest in tax cut legislation is again heating up.

House Ways and Means Committee Chairman Dan Rostenkowski (D-IL) recently introduced a middle-income tax relief package that has four major components (see table on page 2). The tax relief component of the package would, for a two-year period (1992 and 1993), provide a refundable tax credit equal to 20 percent of an employee's share of social security tax (10 percent in the case of a self-employed individual). The maximum tax credit would be $400 for taxpayers filing joint returns and $200 for single taxpayers. Because the tax credit would be refundable, taxpayers who do not have tax liabilities sufficient to fully offset the credit would receive direct payments from the Treasury. The price for this middle-income tax relief would be the addition of a fourth individual income tax bracket of 35 percent, a 10-percent surtax on tax attributable to taxable income in excess of $1 million, and a top individual alternative minimum tax rate of 25 percent. The new 35-percent rate bracket would begin at taxable incomes of $145,000 (joint return), $85,000 (single), and $125,000 (head of household).

Senate Finance Committee Chairman Lloyd Bentsen (D-TX) has taken a different approach

See Tax Cut Proposals on page 3

Tax Foundation

IN THIS ISSUE

Tax Cut Fever	1
"Front Burner"	1
Bentsen Interview	4
Gramm Interview	5
Foundation Message	7
Corporate Tax Compliance Seminar in San Francisco	8

FRONT BURNER

Competitiveness in the International Securities Markets

Sen. Max Baucus

Currently, the U.S. tax law contains barriers to investment by foreigners in U.S. mutual funds. If these barriers were removed, foreign investors would be encouraged to invest in the U.S. economy through U.S. mutual funds, vehicles whose structure precludes shareholders from gaining control of the companies in which the funds invest. Significantly, the removal of these barriers would result in new capital formation from the inflow of investment dollars into U.S. securities markets. This, in turn, could have the beneficial effect of reducing interest rates, increasing the pool of equity capital needed to expand existing American business, and promoting the creation of new business ventures.

Over 36 million Americans invest in U.S. mutual funds. Moreover, the popularity of mutual funds has exploded over the past decade in the emerging European Community of over 325 million people. While U.S. mutual funds are well-positioned to capture a significant share of this market, our tax laws have effectively precluded sales of this important U.S. financial product to foreign investors. The fact that foreign shareholders account for less than one half of one percent of U.S. fund shares hurts U.S. competitiveness and deprives the U.S. economy of valuable foreign capital.

That is why I have recently introduced the Investment Competitiveness Act of 1991 (S. 1748) to improve the international competitiveness of U.S. mutual funds. In general, my legislation would remove the tax barriers that hinder international sales of U.S. mutual funds by providing that a foreign investor generally

See Baucus on page 7

Senator Max Baucus, Democrat from Montana, is a member of the Senate Finance Committee and Chairman of its Subcommittee on International Trade.

The opinions expressed in the Front Burner are not necessarily those of the Tax Foundation. Editorial replies are encouraged.

Selected Tax Proposals — November 12, 1991*

Introduced by	Tax Changes +				
	Capital Gains	Tax Rate Reductions	Social Security	IRA	Tax Credit
Bentsen				All individuals eligible for fully deductible $2,000 IRA, indexed for inflation, with penalty-free withdrawals for first-time home purchase, higher education, and medical expenses. **–$12.5 billion**	$300 non-refundable tax credit for each child 18 and under. **–$60.0 billion**
Bradley					$350 refundable tax credit for each child 18 and under. Credit is indexed to inflation. **–$116.0 billion**
Dreier	Index capital assets to rate of inflation. **–$4.6 billion**	10% reduction in personal income tax rates across the board. New rate schedule: 13.5, 25.2, 27.9%. **–$175.0 billion**		All individuals eligible for deductible $4,000 IRA, with the limit indexed for inflation, with penalty-free withdrawals for first-time home purchase, higher education, and medical expenses. **N/A**	
Gore/ Downey					Replace personal exemption with $800 refundable tax credit for each child up to age 18. **N/A**
Gramm/ Gingrich	Reduce capital gains tax rate using sliding scale exclusion for first three years (+$9.5 bil.) and index capital assets to inflation (–$4.6 bil.). **$4.9 billion**		Increase Social Security earnings limit by $1,000. **–$4.5 billion**	Non-deductible IRA contributions tax free at withdrawal (+$13.8 bil.), and penalty-free withdrawal of up to 25% of funds for home purchase, education, and medical expenses (–$2.2 bil.). **$11.6 billion**	$1,000 tax credit for first-time home buyers with income up to $31,000 (Phased out by $41,000). **–$4.0 billion**
Kasten/ Weber	Reduce capital gains rate to maximum of 15% (minimum 7.5%) and index capital assets to inflation, with no tax on sale of principal residence. **–$53.1 billion (a)**			Non-deductible IRA contributions tax free at withdrawal, penalty-free withdrawal for up to 25% of funds for home purchase, education, and medical expenses. **$13.8 billion**	$300 non-refundable tax credit for each child age 6–18, $1,000 non-refundable tax credit for each child age 6 and under. **–$100.0 billion**
Moynihan			Lower Social Security payroll tax rate to 5.2% over five years for employer/employee. **–$196.1 billion**		
Rostenkowski					Refundable income tax credit for 20% of Social Security and medicare payroll taxes paid by employees (individuals capped at $200, joint filers at $400). **–$45.8 billion**
Roth		Reduce individual income tax rates by 3 percentage points for lower brackets. New rate schedule: 12, 25, 28, 31%. **–$106.3 billion**	Repeal earnings test on Social Security. **–$5.8 billion**	All individuals eligible for fully deductible $2,000 IRA, indexed for inflation, penalty-free withdrawals for first-time home purchase, higher education, and medical expenses. Includes rollover provision. **–$11.1 billion**	Incremental investment tax credit (10% of the increased investment). **–$28.6 billion**
Wallop/ DeLay	Reduce capital gains rate to maximum of 15% (minimum 7.5%) and index capital assets to inflation. **–$52.7 billion**		Lower Social Security payroll tax rate to 5.3% for employer/employee. Off budget = –264.2 bil.; On budget = +$27.4 bil. **$27.4 billion**	Non-deductible IRA contributions tax free at withdrawal, penalty-free withdrawal for up to 25% of funds for home purchase, education, and medical expenses. **$3.5 billion**	

* Due to space limitations, not all proposals are represented in this matrix. The Coats/Grassley/Wolf, Sasser, and Walker proposals are outlined in the text.
+ Note that revenue estimates are based on five-year projections. Totals may not add due to rounding.
(a) Revenue estimates listed are static figures. Dynamic estimates differ: Capital Gains (+$63.7 billion), Neutral Cost Recovery System (+$37.5), Enterprise Zones (revenue neutral), for a net revenue gain of $11.8 billion.
Source: Tax Foundation. Compiled from corresponding bills and proposals.

Miscellaneous	Savings/Revenue Offset	Five-year Revenue Impact	Introduced by
	5% cut in defense **$72.5 billion**	**Neutral**	Bentsen
	$80.0 bil. in defense cuts: decrease military personnel, B-2, MX, Midgetman. $38.0 bil. in domestic program cuts: superconducting supercollider, space station, U.S. Postal Service subsidies. **$118.0 billion**	**Neutral**	Bradley
Index depreciation schedules to rate of inflation to reflect actual replacement costs of depreciable assets. **–$50.0 billion**	Limit total government spending to 4% annual increases from FY 93 to FY 98. **$305 billion**	**Positive**	Dreier
Expand earned income tax credit. **N/A**	Implement new personal income tax rate schedule for higher income earners. New rate schedule: 15, 28, 32, 35%. Impose11% surcharge on taxpayers with AGI over $250,000. Increase AMT rate to 29%. **N/A**	**Neutral**	Gore/ Downey
Enterprise zones (–$6.2 bil.), Permanent R&E credit (–$1.8 bil.). **–$8.0 billion**		**Neutral**	Gramm/ Gingrich
Neutral Cost Recovery System (–$58 bil.), passive activity loss relief to material participants in real estate (–$3.2 bil.), enterprise zones (–$1.8). **–$63.0 billion (a)**		**–$202.3 billion (a)**	Kasten/ Weber
	7% cut in defense (+$100 bil.). Cuts various domestic programs, e.g., space station (+$25 bil.). Expand taxable wage base for payroll tax to $80,000. Assumes increased income tax collections (+$39.6 bil.). Cuts in CIA and related intelligence agencies (+$30.0 bil.) **$194.6 billion**	**Neutral**	Moynihan
	Adds fourth income tax bracket with a 35% rate attributable to individuals with taxable income over $85,000 ($145,000 for joint filers). Imposes 10% surtax on taxable income over $1 million. Increases AMT to 25%. **$45.8 billion**	**Neutral**	Rostenkowski
Repeal boat user fee and extend unemployment insurance benefits. **–$3.4 billion**	9.5% cut in defense (+$130.2 bil.). Domestic program cuts, i.e., reduce farm credits, limit federal civilian personnel hiring, etc. (+$30.8 bil.) Intelligence Agency cuts (+$2.5 bil.). **$163.5 billion**	**$8.3 billion**	Roth
Adopt neutral cost recovery system that adjusts current depreciation schedules for inflation. **–$63.8 billion**		**–$85.6 billion**	Wallop/ DeLay

Tax Cut Proposals from page 1

in his recently introduced tax bill. Rather than reducing taxes for middle-income taxpayers by raising taxes on upper-income taxpayers, Senator Bentsen proposes a tax credit for dependent children, as well as improvements to individual retirement accounts (IRAs).

Under the Bentsen plan, families would be entitled to non-refundable tax credits for each child under the age of 18. Moreover, the ability of all individuals to make fully deductible contributions of up to $2,000 annually to IRAs would be restored, and the $2,000 contribution limit would be indexed for inflation.

Under Senator Bentsen's IRA proposal, which has been co-sponsored by Senator Roth (R-DE), taxpayers would have the option of foregoing immediate deductions for IRA contributions and instead not paying taxes when money is withdrawn from an IRA. In addition, individuals (or their parents or grandparents on their behalf) could make penalty-free IRA withdrawals to purchase a first home, students (or their parents or grandparents on their behalf) could make penalty-free withdrawals to pay for college tuition, and individuals who incur medical expenses for themselves or for their dependents, which exceed 7.5 percent of their adjusted gross income, could make penalty-free withdrawals to help cover those costs.

These are by no means the only tax cut proposals making the rounds on Capitol Hill. At last count, there were at least 11 other comprehensive tax reduction proposals being circulated. These include proposals by Senator Bradley (D-NJ), the "Family Tax Relief Act of 1991," Senator Gore (D-TN) and Representative Downey (D-NY), the "Working Family Tax Relief Act," Senator Gramm (R-TX) and Representative Gingrich (R-GA), the "Economic Growth Act," Senator Kasten (R-WI) and Representative Weber (R-MN), the "Economic Growth and Family Tax Freedom Act of 1991," Senator Moynihan (D-NY), the "Social Security Tax Cut Act of 1991," Senator Roth (R-DE), the "Jog America Plan," Senator Wallop (R-WY) and Representative DeLay (R-TX), the "Economic Growth and Job Creation Act," Representative Dreier (R-CA), the "Tax Relief and Economic Growth Act," Representative Walker (R-PA), the "Economic Growth

See Tax Cut Proposals on page 6

Bentsen Seeks Expanded IRAs and Tax Credit for Children

Senate Finance Chairman Is Open to Capital Gains Tax Reduction

On October 28, 1991, Tax Foundation economist Paul Merski interviewed Senator Lloyd Bentsen (D-TX), Chairman of the Senate Finance Committee, on his tax-relief proposal to expand the tax benefits of Individual Retirement Accounts and provide a tax credit for dependent children.

Q Recent Tax Foundation analysis of the typical American family showed it to be $362 dollars poorer in 1991 due to federal taxes and inflation. How will the Bentsen tax-relief plan help to reverse this decline in the family's purchasing power?

A The legislation I am proposing would give these families a $300 tax credit for each child. For a family of four making $35,000 a year, that will reduce their federal income tax bill by $600 or 25 percent. This will put real dollars in people's pockets that they wouldn't otherwise have to spend or to save.

Q Just last year, you participated in putting into place a five-year budget deal that called for $164 billion in additional revenues and set specific spending caps. With the lackluster performance of the economy, is it time to look beyond the budget agreement in order to reduce the tax burden and stimulate economic growth?

A There is no question that the economy is dead in the water. Economists tell us that putting money in the pockets of working Americans is an effective way to spur economic growth, and increasing this country's lagging savings rate is an effective way to sustain that growth. My legislation is aimed at both those results, but let me add that my proposal does not increase the deficit. The $72.5 billion tax cut that I'm proposing would be paid for by a 5 percent cut in defense spending over the next five years. My proposal would require amending the budget act to allow defense funds to offset tax cuts, but it's not a budget-buster.

My proposal would give our economy a jump start, even though it doesn't add to the deficit, because of the way I've timed it. The tax cuts would go into effect January 1, 1992, and from that moment, people would have less taxes withheld from their paychecks. The defense cuts wouldn't begin until fiscal 1993, and those cuts would be phased in gradually, over a five-year period. This adds up to a $15 billion stimulus in fiscal 1992 alone.

Q As you have often pointed out, the U.S. savings rate lags behind that of every other industrialized nation. How does your tax-relief plan address the critical need to increase family savings?

A I'm proposing to bring back the IRA for every working American. Today the fully deductible IRA is available only to people not covered by a pension plan *and* who have individual income under $25,000 or family income under $40,000. That excludes a lot of people and, as a result, deters saving. Between 1981 and 1986, before the current limits on IRAs were imposed, household savings rates were a whopping forty percent above the savings rates we saw after eligibility was curtailed.

I am also proposing to improve the IRA. For example, I would expand it to allow penalty-free withdrawals to buy that first home, send kids to college and combat financially devastating medical expenses. I also propose to give people the option of either getting an immediate deduction when money is deposited or forgoing the deduction and, instead, not paying tax on the money when it is withdrawn.

Senator Lloyd Bentsen, Chairman of the Senate Finance Committee, tells Paul Merski about his new tax relief proposal.

Q How would you respond to the often-heard claim that Individual Retirement Accounts simply cause a shift in existing savings of upper-income individuals and generate little new savings from middle-income families?

A Recent studies show that the IRA does generate new savings. And if we go further — with the expanded Bentsen IRA — we should see an even greater impact on savings. I think the IRA works primarily because of the attractiveness of the reduction in income tax and the advertising by banks and investment houses to promote the IRA. Around April 15th, people decide that they would rather write a check to their IRA than to the IRS.

If people were simply shifting existing savings into IRAs, they'd make the contribution at the beginning of the year to maximize the tax advantages. But they don't — most IRA contributions are made at the last possible moment. If they were shifting savings, they'd make the maximum permitted contribution. But they don't do that either — only one third of IRA contributors put in the maximum amount.

Q Your $72.5 billion tax-relief plan will be paid for by a five percent cut in defense spending over the next five years. The defense budget is already slated to be cut 20 percent in real terms during this period. Could additional savings and associated tax cuts be realized from the domestic spending side?

A The collapse of the Soviet Union, the President's declaration that the Cold War is over and his decision to cut nuclear arms are all

See Bentsen on page 6

Gramm Proposes Lower Capital Gains Tax, Expanded IRAs and Permanent R&E Credit to Boost Economic Growth

On November 7, 1991, Paul Merski interviewed Senator Phil Gramm (R-TX), about his Economic Growth Act. This tax-relief proposal would lower the capital gains tax rate, expand the tax benefits of Individual Retirement Accounts and provide a permanent tax credit for research and experimentation.

Q The Tax Foundation has calculated the tax burden on the average American to be at an all time high this year, yet we face record federal deficits and dismal economic growth. Briefly, what is your Economic Growth Act and how will it jump-start the economy?

A The Economic Growth Act that I've proposed is designed to provide needed job creation, savings, homeownership, and work incentives without increasing federal spending. The best way to help the average American at this point is to stimulate the economy, shorten the recession, and insure that the recovery which follows is stronger. For investment and job creation, I have proposed a capital gains rate reduction, creation of enterprise zones and a permanent research and experimentation (R&E) tax credit. Savings would be stimulated by encouraging individual retirement account (IRA) investment, and homeownership would be fostered by the proposal's first-time homebuyer's tax credit for families with incomes under $41,000.

Q Unlike many of the other major tax relief proposals currently being promoted, your plan does not outline any savings from the outlay side of the ledger. Could additional tax relief and deficit reduction be realized by examining spending reductions as well?

A Well, the second part of my plan - the Peace Dividend Investment Act - outlines what to do with any savings that accrue in defense in the future. Many Democrats have a clear agenda for defense savings; they want to spend it. My proposal suggests we put into law a mechanism that assures that half of the defense savings goes to deficit reduction and the other half is returned to working Americans in the form of increased personal exemptions. This will allow families to invest in their own economic futures. Many Democrats will argue that they want more government investment in education, health, nutrition, etc. I argue that we would be far better off to let families invest in those things.

Q We have witnessed real defense spending reductions in the past where the deficit and the tax burden are still allowed to increase sharply. How will your plan attempt to change this trend?

A I am proposing to insure that when defense spending is reduced in the future, rather than allowing government to spend that money, that money is given back to working families by raising the personal exemption. Now, some may say that this is an overstatement, but I don't think there is any living person who has worked harder to reduce federal spending more than I have. Do I think under the current circumstances, with the budget agreement in effect, that we will have a dramatic reduction in domestic spending? No. I think the realistic battleground is going to be trying to assure that any peace dividend goes back to working Americans rather than letting government spend it. If we do that, the government will actually become smaller relative to the private sector of the economy. If we can't do that, we will end up being the only country in the world that invests our peace dividend in government rather than in the private sector. Ironically, it was our private sector investment and expansion which made us a success as an economic power rather than making government the economic decision-maker as in the Soviet Union.

Q Does your economic growth plan conflict with last year's five-year budget agreement?

A An important point I want to make is that we are operating under a budget constraint. This means that any proposal that is not deficit neutral must have an offset. To me this does not mean we have a mandate for new taxes. Additionally, anything we do that violates the budget agreement on the revenue side opens it up for the Democrats to violate the budget agreement on the spending side — and you're looking at the potential of tens of billions of dollars in new domestic spending if that occurs. Therefore, in order for a proposal to be realistic - that is, (A): to have any chance of being passed, and (B): for it not to open the flood gates for massive government spending in the name of stimulating the economy - it must be revenue neutral. The advantage of my proposal is that it has the ingredients necessary to stimulate the economy without breaking the budget agreement, without increasing the deficit, and it does not increase any American's taxes.

Q As you have pointed out, the capital gains rate reduction is a major component of your economic growth plan. How do you respond to the claims that reducing the capital gains tax unfairly benefits upper-income groups and is a revenue loser?

Senator Phil Gramm (R-TX) explains his Economic Growth Act to Tax Foundation economist Paul G. Merski.

A The Treasury model, which is basically a static model, scores the capital gains rate reduction as

See Gramm on page 6

Bentsen from page 4

signals that we can expect more savings in defense spending in the years ahead than were contemplated in the budget summit a year ago. Even the additional 5 percent defense cut that I propose would leave the defense budget at $1,387 trillion over the next five years. That's 94 percent of what we spent over the past five years. I believe middle-income Americans deserve a slice of this peace dividend.

Q As you are aware, there is a growing number of tax cut proposals on both sides of the political aisle claiming to be the correct means to stimulate economic growth. Will a viable tax-relief plan need to be a hybrid of these proposals?

A Every bill that we pass is a product of compromise. Everybody has to accept a little give and take. But a tax cut for middle-income taxpayers is a high priority for me.

If you're really asking whether a bill will include a capital gains tax cut, I have always been open to the notion of providing some sort of tax reduction on capital gains. In fact, last year Democratic negotiators during the budget summit were prepared to accept a reduction in the capital gains rate and offered some specific proposals. But these offers were rejected because we insisted that the cut be paid for in a way that made the overall proposal fair. By that, I mean that the people who stood to benefit most — high-income taxpayers — should have also borne the burden of paying for the proposal. The Administration rejected this fairness principle. We are waiting to see whether the Administration wants to talk capital gains this time around.

Q What reaction has your tax-relief plan received from your colleagues here on Capitol Hill and from middle-income families around the nation?

A I've been very pleased with the reaction so far. Although some of my colleagues have their own ideas about the type of relief they favor, there seems to be a wide-ranging recognition that we need to help the economy and middle-income families. The mail is starting to pour in from those families all around the country, and they're agreeing that this is the least we need to do. ■

Gramm from page 5

something that will increase revenues. We have never cut the capital gains tax rate in the post-war period where revenues have not gone up. In the midst of a recession, every outside economic firm that I am aware of estimates that reducing the capital gains tax rate will stimulate the economy and generate more revenues because of increased transactions. In terms of the so called fairness issue, I plan to create wealth, not redistribute it. The economics of class warfare has been rejected now in Eastern Europe, the Soviet Union, and everywhere else in the world except for a small clique around Fidel Castro and at the National Democratic Party. Unfortunately, the whole capital gains debate is being poisoned for political reasons and the American people are suffering as a result.

Q Your economic growth plan also calls for the permanent extension of the R&E tax credit. How do you respond to some of your colleagues who feel we can no longer afford any revenue costs of such tax expenditures?

A I say to them that if we are going to continue to promote the growth of new technology, if we are going to maintain cutting-edge advantages in technology, advantages that foster our economic growth, we must do a better job of encouraging research and development. We have clearly been losing ground in many high-tech areas where we once held a solid competitive advantage. From a national point of view, the idea that we ought to end encouraging research and development simply to spend even more money for domestic programs is suicidal.

Q With the numerous tax relief proposals now on the table, do you think we will need some type of grand compromise among these plans to get any tax relief this year or next?

A You always have to have compromise when you are talking about the legislative process. But one thing I do not feel should be part of any compromise is raising anyone's taxes. Many lawmakers would like to see Rostenkowski's form of soak-the-rich tax policy. Once they start down that road to "tax the millionaires," as they have on many occasions in the past, the poorest and most hard working among us best take cover. ■

Tax Cut Proposals from page 3

Act of 1991;" and Senator Grassley (R-IA), Senator Coats (R-IN) and Representative Wolf (R-VA), "The Tax Fairness for Families Act of 1991." In addition to these proposals, Senator Sasser (D-TN), Chairman of the Senate Budget Committee, has proposed reducing defense spending by $70-80 billion over the next five years, and using that amount to provide middle-income tax relief.

Five of the proposals (Dreier, Gramm/Gingrich, Kasten/Weber, Wallop/DeLay, and Walker) would attempt to promote economic growth by reducing taxes on long-term capital gains. Six proposals, in addition to Senator Bentsen's, would try to stimulate national savings by improving IRAs (Dreier, Gramm/Gingrich, Kasten/Weber, Roth, Wallop/Delay, and Walker).

Quick action could come next year, particularly if the current economic doldrums persist.

Although many of these proposals share common features (*e.g.*, capital gains tax reductions, expanded IRAs, middle-income tax cuts, etc.), some contain provisions that are more unique. For example: tax credits for first time home buyers would be provided in the Gramm/Gingrich and Walker proposals. Moreover, Senator Roth proposes an incremental investment tax credit, and Representative Walker proposes a permanent research and experimentation tax credit. Furthermore, the Kasten/Weber plan would provide passive activity loss relief to real estate developers and real estate professionals.

So far, the White House has not weighed in with a tax reduction plan of its own. However, according to recent remarks by Budget Director Richard Darman, The White House is leaning toward a temporary package (one year) of capital gains tax reduction, expanded IRAs, tax incentives for home buyers, and middle-income tax relief.

The time remaining to Congress this year makes it unlikely that any tax-relief or pro-growth package can be enacted in 1991. However, quick action could come next year, particularly if the current economic doldrums persist. ■

Baucus from page 1

would receive the same U.S. tax treatment investing in a U.S. mutual fund that the investor already receives by investing directly or through a foreign mutual fund.

The two specific aspects of U.S. tax law that make U.S. mutual funds an unattractive investment for foreign investors are the withholding and distribution requirements. The following examples explain why these are deterrents to foreign investment.

First, take the case of a foreign investor who wants to invest in U.S. debt obligations that pay interest or U.S. securities that may be sold for short-term capital gain. If the foreign investor makes either of these investments directly, or through a foreign mutual fund, he or she generally is not subject to U.S. withholding tax. However, if the foreign investor buys either of these instruments through a U.S. mutual fund, the withholding tax applies. All too often, the result is that foreign investors simply will not buy shares in a U.S. mutual fund. My legislation would correct this anomaly, and treat investments in U.S. mutual funds similar to those in foreign mutual funds, by not converting distributions of interest and short-term capital gains into dividends for U.S. withholding tax purposes.

While U.S. mutual funds are well-positioned to capture a significant share of this market, our tax laws have effectively precluded sales of this important U.S. financial product to foreign investors. The fact that foreign shareholders account for less than one half of one percent of U.S. fund shares hurts U.S. competitiveness and deprives the U.S. economy of valuable foreign capital.

The second example of the deterrent effect of current U.S. law involves the foreign investor who wants to accumulate investment income in the mutual fund rather than take current income distributions. A foreign investor who owns shares in a foreign mutual fund typically pays tax in his or her home country only when cash is received or the fund shares are sold. In contrast, if the same investor owns shares in a U.S. fund, the U.S. tax law distribution requirement results in home-country tax even if the income is reinvested in the fund and allowed to accumulate.

My legislation would effectively harmonize U.S. tax rules with those of other countries by creating an International Regulated Investment Company (IRIC). This would be a U.S. corporation that could invest in the shares of a single mutual fund. Only foreign investors could own stock in an IRIC. The IRIC would not be required to distribute its income or capital gain annually. Instead, it would be required to pay a tax annually at the entity level equal to the tax that would have applied to the IRIC's shareholders had they invested directly in the mutual fund shares held by the IRIC.

Because current U.S. tax law has effectively precluded foreign investment in U.S. mutual funds, my legislation will have negligible, if any, revenue effect. I believe that my legislation would encourage long-term investment by foreign investors in U.S. mutual funds, and would improve the ability of U.S. industry to compete in a burgeoning global market. ■

FOUNDATION MESSAGE

Maybe Not in Time for Christmas But Tax Cut Would Be Welcome Relief

Dan Witt
Executive Director

Oh what a difference a year makes! Tax-relief bills are tumbling down from Capitol Hill like confetti, and although the President has handled them with kid gloves so far, we have devoted this issue of *Tax Features* to analyzing the various proposals.

But in late 1990, legislators were not talking about *cutting* taxes to relieve the burden on taxpayers; they were *raising* taxes in a doomed attempt to relieve the government of its embarrassingly high deficit. Despite the fact that true deficit reduction can only come from lower spending, Democratic leaders from Congress and a Republican President did eventually agree on the second highest tax increase in history. And just seven months later, most taxpayers saw their state legislators pass record-high tax increases.

Between the federal and state tax hikes, the American taxpayer is facing about $52 billion in new taxes in fiscal year 1992, so there's no doubt that it's time for some relief. How much relief we get depends not only on which proposal, or combination of proposals, is adopted, if any. It also depends on how the economy would react.

All the proposals suggest that they would jump start the economy — five of them have the phrase 'economic growth' in their titles. We're already in the middle of a phantom recovery, and with so much talk about a double-dip recession, we certainly need economic growth.

How would the average American family fare under these tax-relief proposals? Four of the bills have the word 'family' in their titles, and most of them are explicitly targeted to put extra disposable income in the hands of middle-income people. This of course raises the fairness flag — a banner under which many tax increases have ridden through Congress. Now the same banner will apparently serve for tax cuts. So what does 'fairness' really mean?

The gist of the fairness issue is how the tax code affects the distribution of income, but for my money, 'fairness' means lower taxes for all Americans, not just for the rich, the poor, or the middle class.

Corporate Tax Compliance Seminar Schedule

8:30 a.m. *Registration*

9:00 *Welcome:*
W. Ronald Bunn
Director of Corporate Development, Tax Foundation

Session I — Tax Compliance Costs: Industry and Government Perspectives

Moderator:
Floyd L. Williams, III
Chief Tax Counsel, Tax Foundation

Industry Panel:
Martin Sooper
Director of Taxes, Pacific Telesis Group

Peter Campagna
Tax Compliance Manager, Intel Corp.

J.P. LaCasse
Director of Taxes, American President Cos.

Richard C. Lam
Manager – Tax Audit, Chevron Corporation

Patricia M. Kaltz
Director of Taxes & Tax Counsel, Nellcor, Inc.

Government Panel:
John Monaco
Executive Director, Office of Coordinated Examination Programs, IRS

Scott McLeod
Legislation Counsel, Joint Committee on Taxation

Steve Glaze
Tax Legislative Assistant to Senator David Pryor (D-AR)

10:15 *Coffee Break*

11:30 ***Session II — Getting a Fix on the Cost of Compliance***

Dr. Joel Slemrod
Director, Office of Tax Policy Research, University of Michigan

12:30 – 1:30 p.m. **Luncheon**
Speaker: **Robert P. Wayman**
Senior Vice President and Chief Financial Officer, Hewlett-Packard

- **Call the hotel directly for room reservations at 415/589-0770 or 1-800-445-8667. Fax 415/589-4696.**
- **For seminar information, call: Dee Dee Hannum, 202/863-5454. Fax 202/488-8282.**
- **Send $125 check, made out to Tax Foundation Compliance Seminar, to Tax Foundation, 470 L'Enfant Plaza, SW, Suite 7400, Washington, DC 20024.**

Registration Form

Corporate Compliance Seminar
December 4, 1991, in San Francisco

Name _____

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Foundation Seminar Examines Corporate Tax Compliance

In conjunction with the San Francisco and Santa Clara Valley chapters of Tax Executives Institute, the Tax Foundation will present a half-day seminar on corporate tax compliance at the San Francisco Airport Hilton Hotel on Wednesday, December 4, 1991, from 8:30 a.m. to 1:30 p.m. The Foundation has undertaken a major project on the subject; its centerpiece will be a study by Professor Joel Slemrod, director of the University of Michigan's Office of Tax Policy Research. Professor Slemrod will be gathering information from the seminar participants as he studies the relevant problems. ■

Tax Features

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Tax Foundation
470 L'Enfant Plaza, S.W.
Suite 7400
Washington, D.C. 20024
202-863-5454

Tax Foundation
470 L'Enfant Plaza, S.W.
Suite 7400
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